Report to the New Hampshire Public Utilities Commission

On Ratepayer-Funded Energy Efficiency Issues in New Hampshire

Docket No. DR 96-150

From the New Hampshire Energy Efficiency Working Group

Submitted on July 6, 1999

once the electric assistance program ("EAP") is fully operational, the Commission should review the EAP program to determine if any EAP funds can be made available for low-income energy efficiency programs. Such a determination would depend on factors including, but not limited to, attainment of EAP goals, sufficient funding for the arrearage component, and the size of any waiting list. The determination could also be significantly impacted by the Commission's decision with respect to the source of funding for utility start-up costs and on-going utility administrative expenses for EAP.

Other than as described above, the Group has not developed detailed budgets by distribution company, by rate class, or by program type. However, the Group did agree that equity among customer groups is one of the many important factors to consider in the context of energy policy goals. The Group also agreed to stipulate that "as set forth in the statute, all customers should pay the SBC and be eligible for participating in programs." The Group also agreed that energy efficiency program funds should be allocated to the residential and C/I sectors in approximate proportion to their contributions to the fund. However, the Group agreed that low-income programs should be funded by all customers. Furthermore, the Group agreed that ratepayer funds collected for energy efficiency programs should be spent only on energy efficiency related expenses and not for other purposes. Therefore, the Group, with the exception of NHEC, CVEC, and Staff, agree that energy efficiency funding and spending shall be reconciled each year and any over- or under-collections shall be carried forward and added to or subtracted from, as appropriate, the subsequent year's budget.

9. Distribution Company Remuneration - Shareholder Incentives[15] and Lost-Fixed Cost Recovery

In response to the Commission's directive to look at moving as quickly as possible from the payment of lost revenues for energy efficiency programs, the Group examined the entire issue of providing financial remuneration to utilities for implementing energy efficiency programs. The Group found that some utilities in New Hampshire have been remunerated through shareholder incentives (GSE), others through lost fixed cost recovery (PSNH, NHEC),[16] and some through both mechanisms (Unitil, CVEC). Moreover, the Group found that there has existed a range of

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portion of the system benefit charge. Chairman Patch moved that the Commission approve the proposal from the LIWG [Low Income Working Group] that the low-income DSM program be included as part of the DSM portion of the system benefit charge, not as a part of the low-income portion. Chairman Patch noted that he believes that the two are distinguishable programs and it would be more appropriate for the DSM related charges, to the extent that there are any, to be considered on a going-forward basis as part of any system benefit charge related DSM programs. Chairman Patch noted that the issue of such DSM-related charges will be addressed at a hearing in the future, after the Commission has reviewed the report from the Energy Efficiency Working Group (EEWG) and a hearing is held on the EEWG recommendations." (Minutes from the Commission Meeting on May 10, 1999)

15 It should be noted that not all distribution utilities are "shareholder" owned; the New Hampshire Electric Coop is "member" owned and has a different financial structure than the investor-owned utilities (IOUs). "Shareholder incentives" should be thought of as "performance incentives" in their case.

16 NHEC received LFCR from 1994 – 1996.

structures, levels, and assumptions in both the incentives and lost fixed cost-recovery (LFCR) mechanisms used by New Hampshire utilities.

The Group also examined the shareholder incentive and LFCR mechanisms either recently adopted or currently under consideration in several other states undergoing utility restructuring. After careful consideration, the Group has agreed that utilities should receive shareholder incentives for measures installed after the Implementation Date.[17] The Group further agrees, with the exception of Unitil, CVEC, and Northern,[18] that measures installed after Implementation Date would not be eligible for LFCR.[19] For measures installed prior to the Implementation Date, the Group agrees that historic LFCR should be dealt with on a utility-specific basis by the Commission. The details of the Group's proposed shareholder incentive mechanisms are set forth below.

Shareholder Incentives:

The Group recommends that distribution utilities administering energy efficiency programs in a cost-effective manner receive a performance incentive for these activities. The purpose of the incentive is to motivate the utilities to aggressively pursue achievement of the performance goals of their energy efficiency programs. Shareholder performance incentives for a given utility shall be established annually in the following manner:

Design of the Shareholder Incentive:

1) The proposed shareholder incentive is a sliding scale incentive with two components. The first, *the cost-effectiveness component*, is based on the relationship between the projected New Hampshire Cost-Effectiveness test (NHCE) and the actual year-end NHCE. The second, *the energy savings component*, is based on the relationship between the projected lifetime kWh savings from installed measures (planned savings) and the lifetime kWh savings from actual installations (installed savings).

2) There will be two separately calculated incentives – one for the combined programs in the *residential sector* and one for the combined programs in the *commercial/industrial (C/I) sector*.

3) Target or Design Performance

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17 Implementation Date is the date a distribution utility implements its new energy efficiency plan approved by the Commission, after the Commission reviews and rules on the Group's Report and recommendations.

18 CVEC, Unitil, and Northern assert that they should receive LFCR for future programs until ratemaking changes diminish the need for LFCR by decoupling mechanisms and/or other appropriate mechanisms to assure an opportunity to earn a return that is not diminished by revenue erosion from energy efficiency programs.

19 PSNH asserts that if the terms and conditions set forth in the June 14, 1999 Memorandum of Understanding (MOU) receive final approval by the Commission, it will not seek any further recovery of LFCR and will support the proposal for shareholder incentives. In the event that the terms and conditions set forth in the MOU are not approved, PSNH asserts that it may seek recovery of LFCR in accordance with its current methodology.

a) In each sector, a utility that achieves an actual NHCE equal to the projected NHCE and installed savings equal to the planned savings earns a before tax incentive of 8.0% of its planned energy efficiency program budget for that sector.

b) The proposed shareholder incentive will be calculated as follows:

   i) Residential Sector Incentive = [actual NHCE ÷ projected NHCE] * [4% * residential planned energy efficiency budget], plus [installed savings ÷ planned savings]*[4%*residential planned energy efficiency budget]

   ii) C/I Sector Incentive = [actual NHCE ÷ projected NHCE] * [4% * C/I planned energy efficiency budget] plus [installed savings ÷ planned savings]*[4%*C/I planned energy efficiency budget]

c) A utility will not earn anything on the cost-effectiveness component of its incentive in a sector if the actual NHCE for the combined programs in that sector is less than 1.0

d) A utility will not earn anything on the energy savings component of its incentive in a sector if the actual energy savings for the combined programs in that sector is less than 65% of its planned energy savings.

e) A utility's incentive in a given sector will be capped at 12% (before tax) of its planned energy efficiency budget. There is no cap on either component of the incentive as long as the combined incentive for any sector does not exceed 12% of that sector's planned budget.

f) "For incentive calculation purposes only, planned energy efficiency budget" is defined as the total program budget minus shareholder incentives and lost fixed cost recovery, if any.

g) The avoided costs used in calculating the actual NHCE shall be those used to calculate the Commission-approved projected NHCE.

h) This incentive mechanism shall remain in place through the end of the transition service period of the last utility to introduce retail choice. At that time, the incentive structure will be revisited, along with the over-riding review of energy efficiency programs.

i) The percentage incentive rates provided for in this proposal may be adjusted in the event of an extended period of either significant inflation or deflation following the effective date of this proposal.

j) Any variance in spending for any individual program of 20% under or over budget shall require Commission approval.

k) Final annual shareholder incentives will be determined retrospectively.[20]

An example of the Shareholder Incentive calculation and graphs are provided in Appendix 6.

20 A number of the accounting issues related to shareholder incentives still need to be fleshed-out, for example, whether incentives should be budgeted for the program year or the year in which they are ultimately determined, and treatment of incentives from years prior to Implementation Date.

Signature Page

We the undersigned have participated in the New Hampshire Energy Efficiency Working Group process and endorse the findings and recommendations contained in this report:

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